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SUBJECT: Incentives in Turkey's Technology Development Zones

1. (SBU) Summary: As a part of its efforts to attract foreign investment and promote high technology development, the GOT has given a variety of incentives to companies and individuals working in Technology Development Zones. These zones have had some success in attracting foreign entrepreneurs and spurring exports. While apparently on a much smaller scale than those given to special industrial zones (septel), the tax advantages given to these zones are an example of Turkey's predilection for dispensing incentives for special objectives, rather than implementing more painful structural reforms in the business climate. End Summary.

2. (U) Turkey's Technology Development Zones (TDZ) Law was enacted in June 2001 to "promote technology-intensive production through cooperation among universities, research organizations and private entities, to provide jobs for qualified personnel and to attract foreign direct investment to Turkey." The law has been amended since then to expand the coverage of the incentives for investments made in these zones. Econoff and Econ Specialist met with the TDZ Department Head at the Ministry of Industry and Commerce (MOI), on April 5 to learn more about incentives available to those investing in these zones.

Economic Incentives Offered in the Zones -----

3. (U) According to the law, the TDZs can be established within universities or as techno-parks, such as those already operational in the Gebze and Eskisehir organized industrial zones (OIZs). MOI and other agencies (including the Turkish Scientific and Technical Research Council - TUBITAK, the State Planning Office, the Public Works Ministry and others) form a committee which reviews TDZ applications. Our MOI contact told us the GOT gives priority to projects with the greatest potential for commercialization in manufacturing.

4. (U) The GOT provides the following incentives to investors in TDZs:

-- MOI provides a grant to the management of the TDZ to establish necessary infrastructure, including for construction of management's building. MOI may also provide funds to management for the procurement of land for the TDZ.

-- Business revenue from research and development (R&D) activities and from software will be exempt from the value added tax, income tax and corporate taxes until 2013. The salaries of the personnel working on these areas will also be exempt from all taxes, except social security contributions.

-- TDZ management is exempt from income and corporate taxes.

-- Academics are able to conduct research in TDZs and commercialize their innovations. Academics can establish an enterprise or a partnership with an existing enterprise in the TDZs for such purposes.

5. (U) MOI told us that there are currently 17 techno-parks, of which 9 are actively functioning, with 400 companies employing over 2,000 research personnel. A total of USD 60 million worth of high tech products were exported from the TDZs in 2004. The majority of these exports were defense industry products and software. The GOT aims to attract more FDI with these zones, and our interlocutor cited the 49 percent share of Tefen, an Israeli company associated with entrepreneur Stef Wertheimer, in the Gebze OIZ techno-park as an example of the concept's ability to attract foreign investment. He added that the European Investment Bank also provided a loan to support various TDZs in Turkey. He also stressed the importance the GOT attaches to technological enhancement, which was clearly reflected in the high research and development budget allocation this year. MOI was cooperating with the TUBITAK, which coordinates the GOT's research allocations, to develop more projects in the

TDZs.

16. (U) Econoff thanked MOI for the briefing, and, in closing, stressed the very positive role that strong intellectual property protection can play in encouraging foreign direct investment and technological progress.

Western Mediterranean Technology Zone

17. (U) Environmental Specialist met with representatives of BATEK, the West Mediterranean Technology Zone established last year. BATEK claims success in attracting the interest of Russian IT sector and in establishing close relations with firms in Uzbekistan, Israel, Bulgaria and Sweden. The representatives maintained that they planned to take advantage of the European Union 6th Framework Program for Research and Technological Development and direct and indirect support from KOSGEB (the GOT committee for small and medium-sized enterprise promotion) and TUBITAK. However, BATEK representatives said they were having difficulty finding seed capital. BATEK, which is located at the Akdeniz University in the agriculturally-rich and diverse Antalya region, intends to focus on the agriculture, medicine and biotechnology sectors.

18. (SBU) Comment: TDZs should help compensate for historically low Turkish research spending, and may counterbalance the GOT's traditional bias in favor of encouraging low- and medium-technology manufacturing. Bringing together academics and businesspersons in such zones is bound to generate commercially relevant research. However, deploying incentives for these zones creates economic distortions and unfair competition with firms outside them, a point the IMF has made repeatedly to the GOT. It is also no substitute for taking sometimes politically painful steps to improve the business climate such as strengthening protection of intellectual property rights and reining in unfair competition by capturing more of the shadow economy.
Edelman